Globalization: Snowboard Nation

AN UPDATE ON WHERE SNOWBOARD MANUFACTURING IS HEADED—AND WHY. BY **KATIE BAILEY**

DOES IT MATTER TO YOU WHERE IN THE WORLD A BRAND MAKES ITS PRODUCTS? MAYBE YOU LIKE TO TELL the customers in your shop that the Never Summer board they're holding was made right here in the good ol' U.S.A. Or perhaps it is a subject that doesn't come up at all in the sales process. Either way, the reasons why a brand chooses to do its manufacturing in the U.S. or overseas does make a difference in the price and quality of the products that end up on the store shelves. A factory's location is carefully examined in relation to a number of factors, such as wages, price of raw materials and most of all, the quality of the final product. Every dollar saved in manufacturing process affects the bottom line.

Dollars Per Hour

The U.S. Bureau of Labor reports the average U.S. wage of a precision production worker is $19.46 an hour. An April article in the *New York Times* reported that minimum wages in China have risen 25 percent in the country's major cities from their 2004 average of $58-74 USD a month to levels of about $76-94 today. That still only works out to about 60 cents an hour for a 40-hour week. The fact that wages are climbing though, the article notes, is causing a labor shortage that could affect businesses operating in the country, especially those that require specialized workers.

"It's probably four or five times more expensive to build boards here in the U.S. versus China," says Tracey Canaday, co-owner of Never Summer Snowboards, who manufacture all their boards in Denver, Colorado. He estimates that it takes about two and a half hours to make each board. At an average American wage, let's say that's about $15 an hour, a little less than the official declared average. That's almost $40 just in wages. In comparison, in China, even at a high paying factory, it would cost less than $5 in labor. Although this is hugely oversimplified math, it gives you a picture of wage difference. The result is much tighter margins, Canaday notes.

The Cost of Materials

The cost of raw materials, especially petroleum-based products, of which there are many in snowboarding, is global. (See "Energy Crisis," Vol.2 Issue 1 of *Snowboard Trade News* for more information on this topic.) The cost-per-barrel of oil reached a record high of $78 in July of this year, up from below $20 in 2002. Ride Snowboards manufactures all of its snowboards in China, and Product Director Alex Draper says that although they've streamlined their factory operations, the cost of materials is beginning to take its toll. "Our efficiencies have somewhat offset rising material costs, but without question the cost of making a snowboard is increasing and will keep doing so," Draper says. "I would say over the next couple of seasons, I'd anticipate the slow creep of $10-20 here and there for the same level of product."

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The Quality Factor

Regardless of its affordability, China has not historically been a sought-after destination for board manufacturers because, simply, the quality did not exist. But China has caught up, and companies such as Burton, Technine, Ride, and K2 have moved portions or all of their production into the country in order to take advantage of the savings without compromising the quality.

"We were able to spend more time on every last detail of the product," Draper says in regards to Ride's move to China, explaining that the efficiencies they've gained in their Chinese operations have

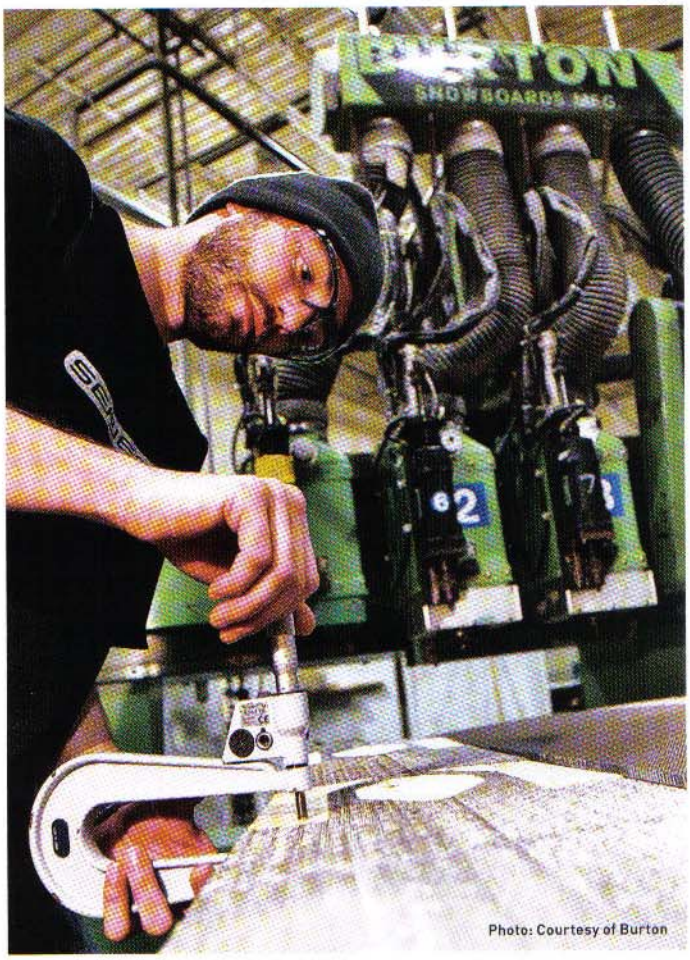

Photo: Courtesy of Burton

Do Customers Care Where Their Products Are Made?

"As long as the consumer is getting the best product for the best price, I think that certainly there is a patriotic component to it, but I don't think it is as large or significant as it has been in the past. And the fact that we develop all those new technologies here, I think provides us with a real strong balance."
—EDWARD GIARD, VICE PRESIDENT OF PRODUCTS, BURTON SNOWBOARDS

"Yeah, maybe not to everybody, but it matters to enough people to allow us to grow every year. I think we're one of the few companies left, obviously, in the industry that manufactures their own boards in the U.S. We've been in business for 15 years and we've grown every year, so obviously there is a segment of the market—it may be small but it's growing—of people that want U.S.-made products."
—TRACEY CANADAY, CO-OWNER/FOUNDER, NEVER SUMMER SNOWBOARDS.

"In my mind, without question, the number one thing is 'are we delivering quality?' And the product speaks for itself. I would say that one of the things we're known for is having high quality boards. If there were quality issues then people would point the finger to the [manufacturing] location possibly, but since there are not it's been a non-issue for us."
—ALEX DRAPER, PRODUCT DIRECTOR, RIDE SNOWBOARDS

allowed them to put extra emphasis on the product. "We have more eyes on the product, all aspects of the boards are properly treated, and we can afford to send the board through more processes, and control all aspects of the quality."

Burton too, has now made the move to China with a number of their boards. They spent three years and hundreds of thousands of dollars investing in the infrastructure of their Chinese location until they were satisfied with the quality of the products. "We are very pleased with the capabilities of our facilities in China," says Edward Giard V.P. of products, Burton Snowboards. "But we need to grow them slowly, because if we took them from a small percentage one year to triple the production the next year, I can guarantee you, that although we would reap the short term benefits of cost, the quality would drop and the brand would be damaged. It wouldn't be a long term solution for us."

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> —Jim Carroll, Trends Expert

The Global Facts

Jim Carroll, a trends and innovation expert who specializes in predicting future trends for big-ass companies like Microsoft and the BBC, says it all comes down to value. "When we have this global competition where everyone is competing on price, the only way out of that hell is to up the value of your brand," he advises. "You take someone like Burton and they've done that to a huge degree."

Carroll takes a slightly different approach to the question of whether or not we'll see a return to U.S. manufacturing. "Quality will drive it," he says. "It won't be patriotism. But it will be quality and the value of the brand image. If you can up the value of the brand image and bring the manufacturing back, then cost is not a factor."

To retailers, global shifts and factory juggling ultimately translate into an effort by brands to find more and more ways to keep their prices at the same level without sacrificing quality. The result is a range of brands on your shelves that appeal to every rider: the patriot, the tech fiend, and the budget-minded. And variety is always good for business.

10 Big Trends That Will Rock Your World

WITH JIM CARROLL (JIMCARROLL.COM)

1. Every industry is now involved in a "race to the bottom," as low cost producers come to dominate markets (e.g. China). Snowboarding is no exception.
2. Every product and service is being commoditized as empowered consumers become increasingly driven by the "Wal-Mart effect," expecting consistently lower prices.
3. Margins suffer as a result, and going "premium" might be the only means to survival. Expect more brands to offer $900 boards.
4. At the same time, hyper-innovation will come to challenge your ability to keep up with changing expectations.
5. Expect nano-life cycles to become the norm for most products and services, which means you will be measuring product life cycles in months rather than years. You don't want to get stuck with a warehouse full of Mambosoks and baseless bindings.
6. Increasing specialization will come to challenge your ability to compete, which might mean that you'll increasingly have to "go narrow." Look at all of the new snowboarding brands.
7. Expect that a skills shortage might make this an even bigger challenge—how will you source the talent in a world in which specialized talent is becoming ever more scarce?
8. Organizations are hollowing out and you might not be ready for the impact that comes from these smaller, faster, more nimble competitors. They'll pass you on the flats—watch out.
9. Short-term decisiveness has become critical—yet you are likely still suffering from aggressive indecision.
10. At the same time, long-term insight is one of the most important corporate cultures to re-establish.